

*U.S. Agency for International Development
Bureau for Africa
Office of Sustainable Development
Agriculture, Natural Resources and Rural
Enterprise Division*

Sustainable African Agricultural Producer Organizations Development Workshop

*Synthesis of Proceedings, Strategy
Recommendations, Lessons Learned
and Best Practices*

November 8-9, 2000
Nairobi, Kenya

Charles D. Whyte, Ph.D.

Deborah B. Campbell Jackson, Ph.D.

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U.S. Agency for International Development

Sustainable African Agricultural Producer Organizations Development Workshop

Theme: Optimal Strategies for Developing and Sustaining African Producer Organizations

NOVEMBER 8, 2000

PURPOSE: The purpose of the workshop is to provide a forum for USAID, other donors and their African partners to share ideas and exchange views on the development and benefits of sustainable agricultural producer organizations (POs) in sub-Saharan Africa.

OBJECTIVES: To (1) examine, discuss and enhance the findings of a recent assessment of African producer organizations' development efforts; (2) finalize a set of lessons learned and best practices, the draft of which is based on the assessment; and (3) propose strategy recommendations for USAID's consideration as related to supporting the development of sustainable producer-owned groups and organizations in sub-Saharan African countries.

OPENING PLENARY SESSION - 9 AM

Dr. Charles Whyte, Agribusiness Advisor, opened with a welcome to the 60 participants, representing Burkina Faso, Eritrea, Ethiopia, Ghana, Kenya, Liberia, Madagascar, Malawi, Mali, Mozambique, Rwanda, Senegal, South Africa, Togo, Uganda, Zambia and the United States.

Mr. James Maxwell (Cargill Technical Services), project director for the seven-country assessment; Catherine Watkins (USDA/ICD) and Loretta Shaw (Tuskegee University), Washington, D.C., program staff; Dr. Emmanuel Acquah (University of Maryland Eastern Shore), moderator; Rose Ali (Management Works, South Africa), videographer; Gregory Hardy (USDA), facilitator; and Dr. Deborah B. C. Jackson (Systems in Synergy), rapporteur, were all recognized.

Kenya Commissioner of Cooperatives Stephen Kirugi welcomed the group to Kenya. He stated his belief that success of sustainable PO development hinges on factors relating to autonomy, member-driven operations, profitability, commitment and purpose. He addressed the problems with support to POs from the perspectives of donors, government, NGOs, and the private sector, followed by reasons for PO non-sustainability. He cited the fact that donor support usually is top-down, difficult to integrate and non-member driven, hence unsustainable. "Government," he remarked, "lacks resources due to its heavy debt burden, while NGOs have agendas that are not necessarily consistent with sustainability." However, he continued, "private-sector initiatives seem to hold the best promise for sustainability." He stressed the need to find ways for all supporters to work

together to improve PO effectiveness in sub-Saharan Africa and expressed the belief that the current PO workshop was an excellent forum in which to do so.

Mr. Kirugi told the group: “As we spend the next two days sharing experiences, lessons learned, and best practices, and formulating strategies to support development of sustainable POs in Africa, I will urge you to try to answer the questions: What can different countries share of their experiences and adaptability in terms of lessons learned and best practices? How do we organize the rural masses to cooperate and share common goals? How do we empower the groups in meaningful ways to achieve the greatest good? And, how can these groups operate autonomously and still have the support and blessings of government, donors and NGOs?”

Finally, he urged participants to consider: (1) the effect of donor contributions on POs’ independence; (2) POs’ access to information to effect political, economic and social concerns; (3) POs’ need for greater responsibilities; (4) cost-effectiveness in developing POs; (5) POs’ role in helping to develop a macro-economic vision linking their grassroots knowledge with the dominant economic forces; and (6) POs’ participation beyond providing a token source of legitimacy for external processes. He ended by emphasizing the need for cooperatives that encourage people to successfully work together for the improvement of integrated services.

In his welcoming remarks, the USAID mission director for Kenya, Mr. Jonathan Conly, expressed his pleasure in holding the workshop in Kenya and discussed the importance of POs as key stakeholders. He spoke to the issues of leaders having adequate training and skills as well as policy support, improvements in business and institution-building, creating new partnerships, and sustainability for self-financing and general economic services. He suggested that USAID support for POs could come in the form of enhancing domestic capacity for developing effective cooperative/PO policies and legislation; short-term technical assistance and/or financial assistance for workshops and study tours; information sharing through “lessons learned/best practices” seminars and other practical guides; interventions for strategies resulting from this workshop (consistent with USAID’s strategic objectives and available resources). He suggested that the group consider the following areas in PO development strategy:

- Building sustainability into new structures so support services will be self-financing;
- Mobilizing local investment funds (rural financial instruments);
- Treating POs as permanent entities rather than as projects or temporary interventions;
- Identifying approaches to improve capacity and competency (i.e., business skills, institution building and communication skills);
- Finding ways to foster new partnerships among non-traditional export services, NGOs and other non-agricultural commodity associations.

At the conclusion of the mission director’s remarks, Dr. Whyte briefed the participants on the U.S. commitment to helping African countries produce food. He cited the *Seeds of Hope* legislation (Sections 101, 102, 103 and 201), and how it had served to reverse a 10-year decrease in developmental funds for agriculture. He emphasized the need for strategies to further develop and support cooperatives and partnerships that will help African countries generate the food and income necessary to feed their populations. He noted that the assessments, conducted in Kenya, Mozambique, Uganda, Ethiopia, Malawi, Zambia and Mali, not only meet the spirit of the law, but also provide the basis for much of the discussion during this workshop. The outcomes of the discussions —“Lessons Learned and Best Practices”—will lay the foundation for development of new/workable recommendations and strategies. Dr. Whyte projected a draft document in early 2001.

Representatives from six of the seven countries that were assessed presented profiles of PO development and key Lessons Learned/Best Practices from each.

MALI – Curtiss Reed, Cooperative League of the USA (CLUSA). Mr. Reed's presentation covered the following four areas:

- (1) Shifting paradigms—including decentralization, democratization, regional integration, economic liberalization, networks and teamwork;
- (2) Cosmology/approach—dealing with interrelationships brought about by participation, equal access, tangible benefits and accountability/transparency through partnerships with and between appropriate civil society organizations and local government units;
- (3) Effective practices—covering client motivation, product knowledge, obstacle management, relationship management, stewardship (mission, vision, responsibility); and
- (4) Lessons learned—translating texts into local languages to facilitate and accelerate advocacy; conducting business in local languages to promote dignity and pride; training in local languages to expand understanding and cross-cultural fertilization; motivating clients so they will have reasons to finance their own advocacy campaigns; removing non-practicing clients to preserve the positive outlook of remaining program participants; recognizing that client needs evolve over time as learning and mastery increase and/or paradigms change, and, therefore, that service providers must also adjust and respond appropriately.

ETHIOPIA – Haile Gebre, Ada Libra Union. Mr. Gebre's presentation was divided into three segments using comparison tables as background and support:

- (1) Types of producer organizations in Oromia Regional State—in which there were 398 different registered primary agricultural-based organizations and 6 unions of POs (Apex) with a total membership of 227,758.
- (2) Activities and focus of organizations—small-scale producers' organizations in Oromia focus on supply of agricultural input to members, marketing, and processing of members' produce. He indicated general success was attributable to the use of the cooperatives—there are cooperatives in seeds and pesticides, grain, coffee and dairy, vegetables and sugar cane;
- (3) Problems faced by the organizations (loosely translated into lessons learned)—poor management capacity or lack of experience, weak organizational structure, shortage of capital, lack of skilled manpower, very weak or nonexistent market and market information, poor infrastructure, low commitment of members, and low or no awareness or understanding among the stakeholders (government, NGO, private organizations, individuals).

UGANDA – Augustine Mwendya, Uganda National Farmers Association (UNFA). Mr. Mwendya discussed (1) the need for a farmers' association, (2) the importance of a clear vision and mission, (3) the approach to building membership, (4) the legal structure, (5) the necessity of a constitution, (6) the organization structure, (7) efforts to promote gender-affirmative action, (8) ways in which service is delivered, and (9) the various local, national and international organizations with which the UNFA is networking/collaborating, and tangible benefits. Examples of local networking groups included private-sector foundations and National Council of Science and Technology. Examples of international organizations cited were the Royal Agricultural Society of the Commonwealth and the International Federation of Agricultural Producers (IFAP).

As lessons learned, he cited difficulty in building membership, problems with sustainability, low technology adoption rates, high expectations by members, limited cohesion/solidarity among the members, members' need for tangible benefits and poor appreciation of services. He concluded that there is recognition of the need for farmers to associate. It is true that POs are difficult to sustain, as the associations involve the poorest segment of the population. However, this difficulty should not be a blocking force.

In the final part of his presentation, Mr. Mwendya shared the "Golden Rules" for elected UNFA Officials in the hope that they might be useful to other association leaders:

1. Your only reason for wanting to be elected must be that you wish to have the honor of serving your fellow farmers.
2. You must have your own independent income, and not expect any benefits from your post.
3. You must be willing to serve voluntarily and use your own time and resources.
4. You must be open in all activities and keep your members informed of everything you do for UNFA.
5. You must ensure that all UNFA finances are properly banked, accounted for and used only for the activities approved by your members and Executive Committee.
6. You must work to make your branch self-supporting, with farmers helping each other.
7. Never promise things to the members that you personally cannot deliver.
8. Make sure that you know your rights and responsibilities as defined in UNFA's Constitution.

KENYA – James Nyoro, Tegemeo Institute, Egerton University. Mr. Nyoro approached the discussion from the perspective of measuring the impact of research on performance of producer organizations over the past 10 years. He indicated that more self-help POs are emerging and that approximately 75% of the agriculture-related business is conducted through cooperatives. He discussed the problems attendant on rapid growth and factors influencing performance.

The lessons learned that he cited were in the areas of management involvement, policy development and implementation, and legal issues. Interventions that may be needed are: technology—short-term vs. long-term gains; cooperative movement may not be able to deliver—and the need for other groups to develop in support of the cooperatives. Best practices noted were (i) tying in credit with output marketing and (ii) empowering producers.

ZAMBIA – Catherine Mwanamwambwa, Vice President, Zambia Association for High Value Crops (ZAHVC). Mrs. Mwanamwambwa began her remarks with an expression of thanks for including the private sector (which she represents) and an acknowledgment that she was not nearly as steeped in knowledge of organizing cooperatives as the previous panelists. She categorized her remarks around five questions:

- (1) How can vertical integration accelerate the pace of growth and equalize the balance of power in the industry? Mrs. "M" (as she was fondly referred to) spoke about the process of moving from a food-security orientation to the more commercial, high-value orientation of horticulture and

floriculture, a segment that now represents an 18-22% growth rate. She indicated that NGOs should never organize without specific markets for growth in mind and that an alliance with CLUSA for organizing 12,000 farmer organizations and increasing loan recoveries has been very successful. She emphasized that trust between the private sector and NGOs is an important factor. She suggested that tele-centers be established to give POs access to international market prices via the Internet.

- (2) What is the most effective way to develop mutually in order to promote agribusiness? On this point Mrs. "M" suggested that companies establish specific marketing, production and distribution partnerships as a means of reducing suspicion.
- (3) With donor (government) support, how do you manage an exit strategy? On this point, Mrs. "M" advised a pre-planned exit strategy, developed at the same time as a mission statement. The plan would encompass making companies viable by establishing risk-sharing policies between private and NGO members in advance, and promote integrated boards and management.
- (4) How can participation of women be increased? The ZAHVC operation was developed when women moved from government to private funding. There was a very high debt ratio. However, they have seen a great deal of success with female owners by increasing the number of cash crops while reducing the debt ratio. She discussed the nature of women's work and how it in effect has handicapped female participation in POs.
- (5) How can all stakeholders take responsibility for ensuring that POs have the linkages to receive benefits from the African Growth and Opportunity Act (AGOA)? She mentioned the AGOA as a good opportunity—especially for Zambian producer organizations that need to have machinery and equipment to handle increased volume successfully. She described a pilot project of about 75 members designed to introduce a product into the U.S. market.

MALAWI – Sander Donkor, Cheetah Horticultural Association. Mr. Donkor's remarks moved through the current status of horticulture to problems and possible solutions. Regarding the current status of horticulture, he spoke of smallholder production, the fact that there were few export products and trained specialists, the lack of a realistic government strategy, and the impact of side selling (selling to another buyer in violation of a previous agreement, e.g., with a PO) on the industry.

Also noted as problem areas were contract farming, official registration, lack of adequate technical assistance, farm input finance, opportunistic traders, IB/side selling, breaches of contract, the legal system, and issues of quality and quantity.

According to Mr. Donkor, POs need:

- business development training relating to ethics and long-term interest.
- more technical assistance for government/NGO officials—not focused on individual farmers.
- some development of the legal system relating to purchasers who would both supply the seed and buy the eventual crop. This would serve as a way to both increase exports and introduce new crops (e.g., paprika and other potential crops, as discussed in the Clinton Green report).
- government guidance on overall strategy development.

As areas requiring immediate attention, Mr. Donkor cited technical assistance for the private sector; development of long-term (3–5 year) alliances between donors and trustworthy private-sector organizations; support for export of traditional/potential products and for import substitution of vegetables and fruits; and research and development of new crop varieties, as well as work with smallholders to increase individual membership in POs. Some results in these areas are already evident.

Issues requiring long-term attention include need for identity cards, reinforcement of the legal system to fight against side-selling/buying, programs to assist with financing of inputs, development of quality control and standards, partnerships between farmer groups and local processors, and enhancement of associations' capacity building to increase their cohesion and chances of survival. The benefits resulting from such long-term efforts include a stronger private sector, increased investments, and sustainable rural growth reflecting greater cohesiveness and knowledge in farmer organizations. He warned that without cooperation, industries would fail to achieve their potential or collapse outright.

Mr. Donkor wrapped up his remarks with one question: "*Are we making progress?*"

At the conclusion of these presentations, Mr. James Maxwell presented an overview of the seven-country assessment, including the project approach, methodology (part of which included the work being refined by participants at this workshop), deliverables, selection criteria for each country, definitions of terms used, examples of lessons learned and best practices, issues, strategy (plan of action) and recommendations for USAID/Washington and in-country missions.

AFTERNOON — SMALL-GROUP WORK SESSIONS AND REPORTS – 1:30 PM

Dr. Emmanuel Acquah provided information and direction about the process for the small-group discussions. Participants were assigned to six thematic groups as defined by the Best Practices document presented by Mr. James Maxwell (lead discussant for each group is noted in parentheses): (1) Effective Start-Ups (Curtiss Reed), (2) Enhancing Sustainability (Bocar Diagana), (3) Linkages and Networks Needed (Mamadou Dembele), (4) Optimal Environment (Sander Donkor), (5) Access to Credit (Clive Drew), and (6) Cross-cutting Issues (Catherine Mwanamwambwa).

The process for each group to follow was: (i) review the best practices/lessons learned and (A) agree; (B) disagree, (C) modify, (D) delete **OR** (E) refer back to the research team for further clarification; **THEN** (ii) add new ideas.

At the end of two hours, the total group reconvened and lead discussants presented the results of each small-group work session, with Dr. Acquah moderating the discussion.

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The results of the deliberations of the six groups were refined and presented to the total group during the morning session of the second day.

PLENARY SESSION – 8:30 AM

As the morning presentation unfolded, several issues took center stage in the discussion. These concerned land tenure, land use, environment and resource preservation, synchronization of loans, in-kind vs. cash support, credit access, repayment/recovery, and motivation for changing behavior to obtain greater success. Following energetic discussion of the issues and of the previous day's work, the small groups reconvened to compile their recommended implementation strategies.

The groups received the same work instructions as the previous day. Upon conclusion of that work, the six groups were merged into three and asked to reach consensus on the priority order of the strategies (**A**, **B** or **C**). The work of the three groups was then reported and thoroughly discussed in the larger group. The strategy recommendations made by the workshop participants follow.

USAID Producer Organization Support Strategy Recommendations

1) Comparative Emphasis

PO support is perhaps one of the highest return-on-investment activities under USAID's economic growth pillar, and it has substantial crossover benefits to other basic USAID objectives. Successful PO support activities will directly increase the household income of beneficiaries in ways that will continue beyond USAID support, assuming the best practices outlined above are effectively implemented. Cross-cutting benefits of successful PO support activities include:

- a) a significantly increased understanding of and appreciation for the principles of democratic governance and the benefits of effective advocacy;
- b) an increased ability of beneficiaries to develop and financially support improved education and health care facilities;
- c) a significantly improved role of women in development; and
- d) where relevant, an increased appreciation for natural resources conservation.

USAID has made good progress in developing models for sustainable PO development, and these should be widely adapted and applied. Several NGOs have substantial expertise at sustainable PO development, most notably ACDI/VOCA and CLUSA. These contractors can be linked to others with greater experience in large-scale agribusiness to improve the business activities of second- and third-tier entities (unions and federations), enhance linkages with commercial private-sector participants, and increase emphasis on export and value-added products. This combination has great potential to expand the domestic and international competitiveness of sub-Saharan African agricultural producers and thereby improve rural household income and well-being.

2) USAID and Strategies for Activity Design

A PRIORITY

- Provide training in the principles of democratic and transparent POs and PO/union leadership (showing how they differ from the old coops and PO/union leadership) as an essential part of activities designed to establish and support sustainable POs.
- Aggressively promote balanced private-sector relationships, partnerships and linkages with POs.

- Provide appropriate services for improving PO access to credit.
- Develop a PO-supported market information capacity that (i) forecasts and communicates demand and prices for key domestic and export crops to PO members, (ii) identifies buyers, and (iii) communicates supply availability to qualified buyers. Until such a system is functioning properly, supply financing and specialized technical assistance (TA) to providers of appropriate and effective market information (best accomplished by third-tier/national-level entities, and best communicated via radio). This will help POs sustain successful output marketing businesses.
- Develop approaches for improving PO competitiveness.
- Encourage the establishment of women's groups to insure they benefit from PO development programs. This is best done either by supporting the creation of women-only POs focused on agricultural production and marketing, or by supporting sub-groups of women within larger POs.
- Provide initial funding and technical assistance (TA) for part of the start-up costs of second- and third-tier PO entities, rather than concentrating exclusively on grassroots POs.
- Encourage funding of longer-term, second-tier entities (unions) primarily from PO commercial transactions, such as input supply and output marketing, since PO dues alone cannot support a significant service program. Support for such a program should come primarily from PO commercial transactions, such as input supply and output marketing.
- Make satisfactory progress on agreed-upon, specific and measurable performance standards a condition for continued PO support. A model M & E system for supported PO activities should be established; and all supported activities should have ways of monitoring how well the PO entity understands and is effectively implementing programs in support of members' *priority* needs.
- Increase the use of local experts in the design of PO development strategies, and involve beneficiary POs and related agribusinesses in all program planning and design.
- Encourage government extension service support for PO formation, especially if it is not politically motivated or influenced. Decentralized (i.e., provincial-level) government support for PO formation and maintenance tends to be more effective than national-level support.
- Encourage (lobby) other donors and PO supporters to increase their emphasis on sustainability and to adopt successful USAID-funded programs. This will multiply the impact of USAID-sponsored PO programs. Joint- and well-coordinated donor funding will also increase the effectiveness of PO program planning.

B PRIORITY

- Provide long-term commitments to PO development that are broadly enough based to effectively address constraints on initiating and/or sustaining POs. Activities that take an integrated approach focused on members' priorities work better than those based on preconceived solutions.
- Provide unpublished (risk-sharing) guarantees to commercial banks that lend money to PO unions that in turn administer loans to POs as a highly leveraged return on investment service. This credit should be both short- and, in some cases, medium-term, and available for the full range of products POs are targeting, provided they are profitable.

- Minimize support for forward integration of POs (e.g., their involvement in further processing), since this will often take them beyond their managerial control and financial capacity.
- Make resources available for activities that determine the optimal crossover point between PO services and those of commercial agribusinesses, and to ensure that the necessary linkages are well balanced.
- Encourage increased commercial private sector/donor/NGO/PO dialogue.
- Make second- and third-level entities the primary interface with the commercial private sector. They have the best ability to deliver large volumes of product and to manage large marketing operations.
- Where there are no functional alternatives, encourage improvement of NGOs' capacity to establish input supply and output marketing businesses, which can be turned over to POs, unions or the private sector once they become viable.
- Incorporate local conditions into PO support strategies and implementation.
- Provide support for the development of *local* PO training entities. Supported contractors/NGOs can, over time, develop local PO training and development businesses. These on-the-ground entities can be contracted to train local communities at a much lower cost than an international NGO, and may be economical enough for POs to pay for nearly all of their own training.
- Focus on supporting the development of sustainable PO models and PO development institutions, since the operating cost of supported contractors/NGOs cannot be justified for longer-term replication activities. All activities should provide specific plans for replicating successful models and/or a phase-out plan. NGOs or contractors should demonstrate successful models to other donors for adoption and replication.
- Develop ways for POs to maximize the use of supplier credit, buyer advances and member consignment to reduce their borrowing costs, assuming the real cost of these alternative sources of credit is less than that of available loans. NGOs can assist by convincing suppliers that specific POs they support are good credit risks.
- Develop an Africa-wide Web-based network to capture, share and disseminate PO-related lessons learned and best practices and stimulate PO-to-PO networking.
- Provide training and mentoring support to domestic NGOs engaged in PO development. This will enhance their ability to manage their own institutions and then to assist POs. The benefits from this approach to PO support would be substantial—for a relatively modest investment.

C PRIORITY

- Make sure supported activities are independent of, but work effectively with, government agencies.
- Develop mechanisms for POs to supplement government extension services. Mechanisms should be targeted to specific PO objectives. Especially important are approaches that incorporate market requirements.
- Accelerate the process of developing PO support strategies and activities to reduce the time between initial design efforts and the beginning of field implementation. This will help to make sure activity components fit needs at the time of implementation. Avoid lengthy time gaps in

donor funding, as well as significant changes in program direction due to the arrival of new donor personnel.

- Develop ways to provide more commercially oriented support for market linkages and marketing management, including programs to help upgrade commercial training and TA skills of contractors/NGOs, particularly those that have been traditionally oriented toward relief operations.
- Encourage contractors/NGOs with successful experience in PO development to assist NGOs new to PO development, especially those who have previously been engaged in relief operations.
- Increase emphasis on supply-side considerations, i.e., improving the cost, quality and consistency of members' production.
- Establish guidelines to ensure that the cost of credit made available via supported activities does not undercut prevailing market rates for "best borrowers."
- Encourage studies on how to most effectively link successful POs to savings and loan associations (S&Ls) and other types of financial services.
- Develop strategies for improving producers' prices and understanding of markets. (One way is to find means of reducing the number of middlemen between producers and end buyers.)

3) Implementation-Level Strategies

A PRIORITY

- Encourage PO support efforts to start in areas with comparatively good production potential and reasonable access to markets. These initial efforts should also focus on a small number of potentially profitable commodities for which a market is assured prior to production.
- Make initial PO objectives specific, limited in number and achievable in a reasonably short timeframe. Economic benefits should be the main early PO objective—the most sustainable POs are those with a primary initial focus on prospective members' economic gain.
- Make sure that selection criteria for POs seeking support include high member motivation and a commitment to eventually becoming self-sustaining.
- Encourage members' sense of empowerment and ownership through training support and information exchange programs.
- Promote increased participation of women and youth in POs through sensitization and training in literacy, business skills and organizational development. Focus subsequent training on basic accounting and the principles of trading. Support for POs' physical facilities should be secondary to organizational and leadership development.
- Encourage cooperative partnerships among government, donors, NGOs and motivated producers to establish sustainable POs. Effective coordination is essential for implementing the PO support activities of donors, NGOs, government and the private sector. Develop opportunities to leverage and network relevant efforts of other donors and potential partners.
- Encourage higher-level entities to be effective advocates for their membership, in particular by

positively influencing objectives and results for agricultural research and extension, as well as policies related to agriculture and agribusiness. (Since advocacy requires large numbers to be effective, it is best accomplished by third-tier entities, i.e., federations.)

- Encourage POs to assume some cost sharing of external support services to stimulate progress toward sustainability and to demonstrate member commitment. Mature POs may require increased levels of cost sharing (especially for training).
- Require supported POs, unions and federations to conduct annual external financial audits as a condition for continued funding.

B PRIORITY

- Concentrate efforts in limited, contiguous geographic areas to attain efficiency in reaching target audiences (via the demonstration effect), cost-to-serve efficiency, input and output consolidation, and critical mass for advocacy objectives. Programs should be expanded outward in concentric circles or along road or river networks that enable access to markets.
- Encourage new POs to visit successful POs onsite (unless it is more cost-effective for successful PO leadership to visit new POs). Cost-effective study tours to successful organizations at all levels are a powerful training tool.
- Develop service alternatives for increasing the profitability and sustainability of well-established and well-managed POs—e.g., contracting farm machinery—and provide management training and internal control systems needed to sustain these services.
- Encourage effective PO output-marketing services where loans can be deducted directly from sales proceeds. Such **marketing offsets** help assure credit repayment.
- Suggest that POs foster a positive attitude among members by establishing an annual dividend from operations, even if it is only a token amount.
- Improve communication and transparency by encouraging public display of basic PO information such as profit-and-loss/balance sheets, membership numbers, organization structure and officers, and charter and objectives.
- Encourage support for improved “train-the-trainer” training and materials to increase volunteer effectiveness in conducting literacy and numeracy training.
- Endorse rotation of leadership as a strategy for broadening POs’ support and experience base. This can be accomplished by including term limits in the by-laws, and, if necessary, bringing to bear pressure from supporting NGOs. PO and union leadership should be discouraged from concurrently holding any elected office or government post.
- Encourage POs to become economically and managerially sustainable before they attempt a significant advocacy program. POs should finance most or all of the costs of advocacy out of their own sources of income.
- Encourage POs to use advocacy and other programs to establish closer ties with government agricultural research and extension services, and thereby help to bring governmental program priorities and activities more in line with PO members’ needs and market demands.

C PRIORITY

- Increase the availability of management training for POs above the producer level—i.e., at the union and federation levels—as long as they demonstrate loyalty to grassroots POs and provide economic benefits to POs.
- Arrange exposure tours of POs for key government officials that will demonstrate how autonomous POs can successfully improve members' livelihoods and maintain PO-government partnerships. Also consider tours of banking officers to successful POs to demonstrate their financial strength and creditworthiness.
- Encourage PO supporters to avoid free or subsidized distribution of inputs or commodities that disrupt members' markets.
- Encourage POs in an early stage of development to use in-kind loans of inputs rather than cash.
- As a necessary step in implementing credit programs, supplement training programs with information on how to apply for and repay loans.
- Develop mentoring programs between larger agribusinesses and unions.
- Encourage PO support for partnerships between African POs and U.S. agribusinesses under AGOA and other initiatives.

4) Resolving Issues

A new pan-sub-Saharan African activity should be designed to answer the outstanding issues related to developing sustainable African POs, including:

- a) What are the comparative merits (benefits and risks) of alternative sources for PO income such as cesses; sales commissions; a margin from acting as a principal on transactions with quick turn-around; acquisition and storage of members' output for off-season sale, etc.?
- b) What is the best way to help producers in marginal areas who do not have sufficient marketable surplus to pay dues or support a sustainable PO, since they are the most in need?
- c) What is the optimal extent of PO forward integration, i.e., what is the optimal crossover point between POs and commercial agribusinesses?
- d) What are the disadvantages and advantages of vertically integrated POs? Under what circumstances will a vertically integrated PO be the best approach, and when is a horizontally integrated PO the best?
- e) What is the most effective way to develop mutually supportive and sustainable POs *and at the same time* the private-sector agribusinesses they do business with?
- f) How can POs best influence the objectives and results of agricultural R&D and extension services, and play a key role in the development and dissemination of technologies adapted to their *market-led* needs?

- g) Should USAID's Bureau for Africa (REDSO/E) investigate development or upgrading to become a regional PO training center? One approach to sustainability would be to privatize the center. Is there a need for a regional center specialized in PO training?
- h) Should an NGO use a limited-term charge for services provided as a way of achieving a payback for PO training and support—payment that in turn can be used to support new POs? What are the advantages, disadvantages, alternatives?
- i) What is the best way to provide savings and loans services to members of well-established POs?

Solutions for these issues would significantly improve the positive impact of USAID's PO-support activities. (*Appendix A* contains the final draft of Lessons Learned and Best Practices developed by the workshop participants.)

CLOSING PLENARY SESSION – 1:45 PM

In his closing remarks, Mr. David Soroko, Natural Resources Officer, Chief, USAID, Madagascar, posed again the question raised by Sander Donkor on the first day of the workshop, “Are we being successful?” Mr. Soroko rhetorically asked: “Has there been progress?”, then responded **yes**, based on the numbers of countries represented at the workshop and the inclusion of private-sector participants. As an “in the moment” example, he cited the impact of assistance on women in Burkina Faso, whose new PO for producing/marketing dried fruits and vegetables is making a real difference in their lives and those of their families.

Ms. Meg Brown, speaking for USAID Kenya, expressed her optimism over USAID's positive shift back to a focus on agriculture, reflecting what she believes is a renewed commitment. She emphasized that local conditions must dictate the structure of cooperatives, which should be competitive and sustainable without special consideration. Social factors are important, but *not* to the extent that profit-making is decreased. She stressed the need to focus on developing management skills and closed with a statement of appreciation for holding the workshop in Nairobi.

Mrs. “M” expressed a desire that all have one vision using cooperative ventures to improve lives through the creation of wealth. She reminded the group of USAID's assistance and encouraged women to continue making strides. Parenthetically, she noted that the U.S. staff was about 70% female, then thanked the leaders for “walking the talk.” Her historical perspective caused the group to reflect on the fact that 40 years ago Malaysia and Singapore were economically “third world” and are now “first world.” “We can do this!” she exclaimed. “All we need to do is look at what has worked for others and adapt it to our situations.” She cited the need to challenge the younger generations, acknowledged politics as a necessary part of growth and development, and expressed a wish for continued inclusion of the private sector in meetings with POs.

Dr. Whyte thanked all the participants for contributing to the success of the workshop and reminded them of USAID's commitment to agriculture. He stressed that competitive advantage and sustainability are vital for POs, but should not be achieved at the expense of the private sector. Further, he said that he and the other staff had heard the messages relating to development of management skills, rural area development, enhancement of networks and linkages, and the commitment to creation of wealth in Africa. He closed with a reminder that “no movement comes without its share of problems” and encouraged all participants not to allow the problems to inhibit forward movement.

The workshop closed at 3:30 PM.

Appendix A

Summary of Lessons Learned and Best Practices for Developing Sustainable African Producer Organizations

Launching Producer Organizations

Lessons Learned

- i) Ethnic and social cohesiveness of potential members will increase cooperation and mutual support and therefore facilitate PO formation. A history of community-level self-help also makes it easier to initiate POs.
- ii) The more socially and economically motivated the members are, the more likely the new PO is to become sustainable.
- iii) Socially cohesive POs often want to include social service projects in their priorities.
- iv) A history of government support for PO organizations that *did not* become extensively top-down controlled makes the development of democratically managed and transparent POs much easier. Conversely, historical government control over and management of POs (cooperatives) creates a very negative attitude toward PO development, and much training and time must be invested in helping potential PO members understand the difference between government-controlled coops and democratically managed POs. The more experience potential members have with African socialism, the more difficult the development of POs, especially when it comes to establishing an attitude that potential members are responsible for their own destiny and must be willing to work to achieve their own goals.
- v) Consolidation of outputs for marketing, as well as bulk buying of inputs, are typically strong incentives for PO formation.
- vi) Formally recognized POs can gain better access to public and private-sector services.
- vii) As POs in the same geographical area and dealing with the same commodities move toward sustainability, they normally become interested in forming a second-level entity. At this level, they can achieve the economies of scale needed to avail themselves of professional management and receive better prices associated with higher volumes of product. The formation of effective unions/second-tier PO entities in turn stimulates the initiation and development of additional grassroots POs under them.

Best Practices

- i) Successful POs typically start off with objectives that are specific, limited in number and achievable in a reasonably short time frame.
- ii) POs that have a clear vision and mission and highly motivated members in a socially cohesive structure are more likely to be sustainable.
- iii) The most sustainable POs are those with a primary focus on prospective members' economic gain. Economic benefits should, therefore, be a PO's main initial objective.

- iv) The first external support requested by a new PO is usually for leadership training, membership empowerment, and organizational development, including the principles of democratic and transparent PO formation and management. Later the focus should shift to business training, new member services, and strategies and programs for achieving sustainability.
- v) To achieve sustainability, a new PO needs to develop incrementally: resolve start-up problems, establish relationships with external entities, consolidate leadership, and achieve and maintain product standards.
- vi) Effective POs require cooperative partnerships with government, donors, NGOs and motivated producers.
- vii) Members of new POs must define and prioritize their own goals, then get help to develop and implement solutions for their highest priorities.
- viii) Soon after formation, it is important to change the focus of new members from short-term gains to long-term benefits. Members must be encouraged to think of themselves as resource managers and not beneficiaries of donors, government or NGOs.
- ix) POs interested in *new* crops should initially focus on just those crops. Later, they should limit themselves to those with the highest potential for economic return.
- x) All PO support activities should be conducted in local languages.

Promoting the Sustainability of Producer Organizations

a) Services

Lessons Learned

- i) Too many objectives, or a lack of consensus on which ones should have highest priority, undermine PO sustainability. It is equally detrimental to undertake objectives that are mainly motivated by a desire to gain access to government or donor resources.
- ii) Success in output marketing services, especially for physical consolidation and negotiating better prices for members, are key elements in promoting sustainability.
- iii) Services that improve members' bargaining power for output marketing or input purchases are highly valuable, even if no purchasing by the PO is involved.
- iv) PO information committees can be an effective means of communicating prevailing price information and other market conditions to members.
- v) A reduced role of government in input and output marketing increases the importance of marketing services from a PO.
- vi) Typically PO members list the following service priorities:
 - production and agricultural training and extension services;
 - assistance with group organization;

- training for PO business operations;
 - assistance with marketing services;
 - access to credit for inputs at affordable interest rates, and
 - access to savings services.
- vii) POs can afford to provide members with extension services only for high-value cash crops where the cost of extension services can be recovered from income derived from marketing operations.
- viii) Members who are not satisfied with PO services will stop using those services, will stop paying their dues, and will eventually drop out of the organization entirely.
- ix) Women usually do not play a significant role in POs, especially PO leadership, due to the generally lower level of education and other factors. However, in some cases, women have formed their own sub-POs to pursue projects of particular interest to them.

Best Practices

- i) Market information is usually best gathered and disseminated by third-tier/national entities and communicated via radio, usually with outside technical assistance for set-up.
 - ii) Credit repayments are best assured when effective PO output marketing services exist, since loans can be deducted from sales proceeds (marketing offsets).
 - iii) PO *purchase* of members' output for later sale requires access to credit, storage facilities and good trading skills. This marketing strategy usually must wait until a PO is well established and forms part of a functional second-tier entity.
 - iv) Fees charged for marketing output (or deductions taken from marketed output) should be sufficient to pay for the entire direct cost of the service provided plus depreciation and/or overhead.
 - v) Developing members' basic business and trading skills via training is a high-yield PO activity.
 - vi) Government-supported guarantees for inputs purchased by POs, such as fertilizer, significantly increases the role of POs in input supply and improves their financial sustainability.
 - vii) A caucus for women can provide a platform for addressing their specific concerns while linking them to the larger PO in a way that ensures their representation.
 - viii) Services such as shared use of expensive equipment (e.g., tractors, plows, harvesters and seed-cleaning equipment) can be quite valuable to members but *must be* properly managed. Handling these services generally requires a high level of PO development.
 - ix) Profitable POs are those that will invest in social infrastructure such as clinics, schools, and local infrastructure.
- b) Funding

Lessons Learned

- i) Input and output sales have more potential as a significant source of sustainable PO revenue than membership dues.
- ii) Members within a PO must reach consensus on the use of profits, e.g., for reinvestment, social improvements, or distribution to members.
- iii) Members need to be trained in how to best exercise their financial control responsibilities.
- iv) Output marketing can be both a valuable service to members and a source of the revenue needed to sustain the PO, but obtaining the highest prices requires the development and active participation of second- and third-tier entities in marketing.

Best Practices

- i) Members must pay dues and give active support for a PO to be sustainable.
- ii) Frequent third-party audits that are made available to the public are essential to maintaining the credibility of POs' members, leadership, and donors.
- iii) Minimize the use of expensive credit by self-financing and by making maximum use of supplier credit, buyer advances and member consignment, while always bearing in mind the real cost and risk of each funding alternative.
- iv) Donor guarantees, training and TA for loan management can be very effective in stimulating increased access to finance, especially if unions help to administer loans.
- v) Minimizing operating costs by reimbursing actual expenses is preferable to paying sitting (attendance) fees to directors.
- vi) Second-tier entity (union) funding must come primarily from commercial transactions such as input supply and output marketing, since PO dues alone can not support a union services program.
- vii) Donor funding and TA support of start-up costs should not be concentrated exclusively on primary-level POs but should be available for second- and third-tier entities as well.
- viii) Donors should avoid lengthy time gaps in funding, as well as significant changes in program direction due to the arrival in country of new donor personnel.

c) Determination of Membership Priorities and Satisfaction

Lessons Learned

- i) Impartial contractor (third-party) assessment of member satisfaction is quite rare.
- ii) In democratically managed POs, leadership gets voted out when members are dissatisfied.

- iii) The level of PO members' participation tends to be directly proportional to the perceived benefits they are getting from their membership in the PO. Their interest and participation in the PO increases with the PO's ability to increase members' income.
- iv) A "sector development" objective (i.e., a general desire to increase the size, growth rate and profitability of a specific sector) usually does not generate sufficient income to sustain a grassroots-level PO.

Best Practices

- i) Because most PO leaders determine membership priorities and attitudes informally, they should be trained in effective survey techniques.

- ii) Communication and transparency significantly improve with public display of PO information such as profit-and-loss statement, balance sheet, membership numbers, organizational structure, officers, charter and objectives.
 - iii) Donors should be very cautious about supporting POs with the primary objective of “sector development,” since this type of PO can rarely generate sufficient internal income for sustainability.
- d) Human Resource Development

Lessons Learned

- i) Literacy and numeracy training are needed to improve members' ability to effectively influence PO operations and broaden the leadership pool.
- ii) Leadership problems are the leading cause of PO failure. PO sustainability is directly related to how effectively management is able to accomplish goals and objectives while managing the PO in a transparent, member-directed manner.

Best Practices

- i) Business and marketing training helps members participate in the basic routines of management, marketing and finance. Assistance in these skills is a priority for improved PO sustainability.
- ii) PO members with only modest “train-the-trainer” training and materials support can work as volunteers to conduct effective literacy and numeracy training.
- iii) Rotation of leadership broadens a PO's membership support as well as its experience base. It should be encouraged by inclusion of term limits in the by-laws and by pressure from supporting NGOs.
- iv) PO or union managers/leaders who concurrently hold elected or appointed government office usually extend their political influence into the PO and reduce its effectiveness and sustainability.
- v) PO managers, especially for upper tiers, should be compensated on the basis of their effectiveness in meeting the PO's agreed-upon goals.

e) Women and POs

Lessons Learned

- i) Women's role in POs tends to be minimal, especially in leadership and decision-making, but in some cases women have formed their own sub-POs to pursue independent projects.
- ii) Low levels of literacy affect women disproportionately more than men, and their lack of confidence in dealing in male-dominated societies limits their involvement in POs.

- iii) Donors do not usually consider women's special requirements when designing PO support programs.
- iv) Women's POs can serve to facilitate entry of micro-finance institutions that finance women's agricultural and non-agricultural enterprises.

Best Practices

- i) Establishment of women's groups or subgroups is necessary in most countries to ensure that women benefit from PO development programs. The best way for POs to promote women's development activities is either to:
 - (1) support the creation of women-only POs focused on agricultural production and marketing, or
 - (2) support sub-groups of women within large POs.
 - ii) Improving literacy and numeracy will positively affect women because it will set the stage for women to achieve fuller participation in the affairs of POs, ultimately ensuring that their issues are better addressed.
 - iii) Women's participation in positions of responsibility within POs should be encouraged to ensure that their issues are represented. For example, the president of a women's organization should sit on the broader PO board.
 - iv) PO leadership should take frequent evaluations and, if necessary, corrective actions to make sure that women benefit equitably from PO development efforts.
- f) Advocacy

Lessons Learned

- i) The importance and potential impact of advocacy increases in the higher tiers of PO organizations and is one of the main justifications for national-level PO organizations.
- ii) Effective advocacy can only take place in a political environment that does not cause POs to fear government retaliation.
- iii) Land management and producer ownership/control of farmlands are linked to sustainable production and development. These issues are often priorities in PO advocacy programs.
- iv) Advocacy is most effective after POs have become economically and managerially sustainable, when they have the financial resources to deliver focused programs.
- v) Effective networking is critical to successful advocacy.
- vi) Land tenure issues are often of considerable interest to PO members, but are usually politically charged and therefore must be carefully managed as an advocacy issue.

- vii) In some countries, additional support for land tenure issues may be required so that producers may obtain ownership or other forms of secure tenure to the land they are working and in which they need to invest.

Best Practices

- i) Achieving economic and managerial sustainability is a requirement for effective PO advocacy. Members' needs and concerns—not donor or NGO perceptions—should determine support for advocacy.
- ii) POs should finance most or all of the costs of advocacy out of their own sources of income.
- iii) Where land management is a problem, POs should exercise an advocacy role in land management activities and set up information networks on land management techniques and approaches.
- iv) Since advocacy requires large numbers to be effective, it is best accomplished by third-tier entities.

g) Communications

Lessons Learned

- i) Subsector-specific POs (such as dairy or cocoa) tend to have geographically dispersed membership and are more difficult to manage, especially regarding communications.
- ii) Price information collected by a combination of government agencies, POs and specialized TA is best disseminated nationally by radio in local languages.

Best Practices

- i) For POs with primarily illiterate members, communications must take place at frequent, open and consensus-based meetings.
- ii) To achieve good upward and downward communication in POs, an external source of support is a requirement.
- iii) For the effective operation of POs, open and frequent communications between the PO board and members must exist.

Optimal Environmental Conditions for PO Development and Sustainability

a) Subsector Strength (e.g., Dairy, Poultry, Horticulture, Cocoa)

Lessons Learned

- i) A subsector or geographic area must be economically viable enough to enable members to produce a marketable surplus—usually through output marketing services—and therefore help fund a sustainable PO.

- ii) Vertically integrated subsector-specific POs have increased revenue prospects and the potential to achieve better control or influence over the subsector, but must have a balanced relationship between producers and processors to be successful.

Best Practices

- i) The market liberalizing reforms supported by USAID, multilateral development banks and other donors (e.g., elimination of marketing boards, privatization of trade, market-determined product prices, elimination of export prohibitions) are needed to make PO development viable.
- ii) Vertically integrated POs can accelerate the pace of sector development if there is a reasonable balance of power between processors and the producer members.

b) Government Infrastructure and Policy Support

Lessons Learned

- i) In surveys of some African countries, government policies could be and are being improved as a result of policy dialogue. However, in a few instances, current government policy is a significant roadblock to the development of sustainable POs. Nevertheless, policy dialogue and advocacy focusing on improving the environment for PO and private-sector development needs to continue.
- ii) Adaptation of modern seed varieties, animal breeds, etc., to local conditions is an essential government service for successful agriculture, and therefore for successful POs. Commercial private-sector participants can also do adaptation work, most often for new export crops.
- iii) An effective government extension service makes PO development and sustainability much easier. Commercial private-sector businesses can also negotiate with POs to provide extension services to producers. This arrangement is most common for new export crops.
- iv) African research and extension institutions, which are usually under government control, can no longer meet the needs of PO members, since they are generally underfunded and poorly staffed. These institutions rarely appreciate the importance of market demand as related to their responsibilities.
- v) POs have not been active or influential in helping to set the agenda for government-controlled research and extension activities. They need to explore avenues for representing their members' needs to these institutions.
- vi) Rural safety and security are important government and PO support "services."
- vii) Land tenure issues often complicate PO development, especially as related to advocacy and collateral.

Best Practices

- i) Government policy toward and support for POs need to be consistent over time.
- ii) Government extension and R&D activities need to be adequately funded and linked to market requirements.

- iii) POs should use advocacy and other programs to establish closer ties with government agricultural research and extension services. This will help to bring government priorities and results in line with members' needs and market demands.
 - iv) Developing a successful partnership with agricultural research and extension institutions will require training for PO leadership in advocacy and management skills, especially as related to their ability to define priorities, conduct negotiations, and mobilize resources.
- c) Other

Lessons Learned

- i) Government, NGO/PVO, private sector and donors must share a commitment to a market-led, private sector-driven economy for POs to be successful.
- ii) Civil conflict makes it very difficult for POs to develop or redevelop.

Support and Linkages for Producer Organizations

a) External Support in General

Lessons Learned

- i) POs must carefully plan how they are going to gain access to the technical and financial resources they need to become successful. Initially some of this support will likely have to come from external sources, but a plan must be developed and implemented to reduce external sources of support and increase internal resources.
- ii) POs can be developed easier and faster in regions that are reasonably well connected to markets, particularly when they specialize in export-oriented or high-value crops. In marginal areas that can only support subsistence crops, it is harder for POs to succeed.
- iii) Selection criteria for external support of POs should be based on their plans and potential for:
 - (1) a large number of active members;
 - (2) member contributions (versus donor or other external sources) equaling a significant percentage of total income;
 - (3) a positive impact on members' income in the short to intermediate term;
 - (4) capacity to transform members from subsistence to commercial producers;
 - (5) democratic and representative governance;
 - (6) financial and decision-making transparency;
 - (7) effective upward and downward communication systems;
 - (8) financial and managerial sustainability; and
 - (9) replicability—the extent to which the PO can become a model of success for others to emulate.

- iv) Once the volume of PO production rises in response to the more attractive producer prices the PO receives, aid with production technology and natural resource management (especially for soils and water) becomes increasingly important to further PO expansion.
- v) Charging supported POs a percentage of their gross profits for a limited term as a payback for training and ongoing support is one way to lower cost of PO development.
- vi) The grouping of several (e.g., six to eight) POs into unions and several (e.g., six to eight) unions into federations significantly improves the ability of POs to implement commercial transactions, hire professional managers and accountants, and achieve the numbers needed to develop an effective “voice.”
- vii) Consider land tenure and land-use issues when supporting PO development.

Best Practices

- i) POs seeking support must be thoroughly screened to make sure they are highly motivated and committed to eventually becoming self-sustaining.
- ii) PO development should start in areas with good prospects for becoming better connected with markets, focus on a small number of export or high-value crops, and expand later to more marginal areas as an experience base is developed and as infrastructure improvement makes it easier to service these areas.
- iii) Concentrate initial support efforts for POs in limited and contiguous geographic areas for cost-to-serve efficiency, for improved inputs and output consolidation, for the demonstration effect as success is achieved in initial areas, and to create critical mass for advocacy objectives. PO efforts should expand in concentric circles or following access roads and other routes of access to markets.
- iv) External support must focus on leadership capacity, which can be achieved through extensive training in management, accounting, marketing and productivity improvement.
- v) Basic accounting skills for PO and union leadership, and to a lesser extent PO members, is an important early contribution of external support and is essential for operating control and improved transparency of operations.
- vi) Marketing training is also very important for PO and especially union success. It is, therefore, an important external support service.
- vii) Union- and federation-level personnel need extensive training in organizational management, accounting and marketing, which should be provided as long as they demonstrate loyalty to the grassroots POs.
- viii) Timely and relevant market information is needed to enable POs to sustain successful output marketing businesses. In most cases, externally financed TA is the best source of these materials until the POs have properly functioning systems in place.
- ix) POs should assume some cost-sharing of external support services both to stimulate progress toward sustainability and as a reflection of member interest and commitment.

- x) Effective coordination of PO support between donors, NGOs, government and the private sector is essential.
- xi) Supporters of PO development should avoid directly supplying inputs to be distributed to or by POs from outside the country, since this destroys the business of local distributors. Use vouchers that beneficiaries can redeem at local private-sector dealers.
- xii) PO supporters must avoid free or subsidized distribution of inputs or commodities that disrupt members' markets.
- xiii) All PO supporters must establish specific and measurable performance standards for supported activities and make progress on these indicators a condition for continued support.
- xiv) In environments where people are not experienced or comfortable working together, a large number of small, primary-level POs works best.
- xv) PO supporters should first develop and disseminate models of *successful* POs and unions for inspiration, confidence and emulation.
- xvi) Since POs' needs change over time, the support they receive must also evolve.
- xvii) Beneficiary POs and related agribusinesses should be involved in all support program planning and design.

b) Direct Government Support

Lessons Learned

- i) Support for POs from government, especially from the central government, tends to be top-heavy, highly bureaucratic and not well grounded in grassroots PO priorities.
- ii) Extensive government involvement in the upper tiers of POs is counterproductive as a result of its negative influence on advocacy programs.
- iii) Government manipulation of coops makes them unable to compete in an open marketplace, despite their control of extensive fixed assets.
- iv) The Sasakawa 2000 program, which distributes input packages free to a limited number of producers, has had a negative impact on POs. Consideration should be given to involving POs and their unions in the program.

Best Practices

- i) Decentralized, i.e., provincial-level government support for PO formation and sustenance is more effective than national-level support.
- ii) Government extension service support for PO formation can be quite effective, especially if it is not politically motivated or influenced.
- iii) Government-guaranteed loans for inputs, e.g., for fertilizer, can be very helpful for achieving PO sustainability.

- iv) Like all other kinds of support, government direct assistance needs to include a phased exit strategy.
- v) There must be very minimal government interference with POs at all levels. For example, government must not interfere with PO decision-making and must not participate in activities that compete with POs.
- vi) Direct support for POs from government must be designed in such a way that it does not inhibit the development of private-sector services that will replace government services.

c) Donor and Multilateral Development Bank Support

Lessons Learned

- i) Excessive donor support leads to donor dependency, i.e., does not encourage sustainability.
- ii) Donors must put PO economic sustainability on the same footing as organizational sustainability.
- iii) As POs supported by one donor become successful and start unions, other donors will become interested in providing similar support.
- iv) Donors can often obtain a better return on their investment through support of POs rather than through subsector development programs.

Best Practices

- i) Donor funding for training in the principles of democratic, transparent POs, how they differ from the old coops, and PO/union leadership development is essential for sustainable POs.
- ii) Donor commitments to PO development must be long term and should provide enough latitude to address nearly any constraint on PO start-up and sustainability, i.e., they should not prescribe specific solutions.
- iii) Donor-supported NGOs can, over time, develop local PO training and development businesses that can be contracted to do training at much lower cost than international NGOs, and may be affordable enough for POs to pay for nearly all of their own training.
- iv) If donors distribute food free or at prices below market, this lowers market prices and makes it difficult for POs and PO members to sell their produce at fair prices.

d) NGO/PVO Support

Lessons Learned

- i) *Extensive* and *long-term* NGO/PVO TA is needed to develop sustainable POs, especially where direct government PO services are nonexistent or very modest.

- ii) NGOs/PVOs must take their cue from PO members' priorities, not follow their own.
- iii) Most NGOs/PVOs are not strong enough in commercial skills training.
- iv) The importance of literacy/numeracy training varies among the different NGO programs.
- v) Some NGOs have established input-supply and output-marketing businesses that they plan to turn over to POs/unions or the private sector once they become viable. This would seem to have good potential where there are no current similar businesses.

Best Practices

- i) The most valuable form of NGO/PVO support is training in PO organization and the principles of democracy and transparency.
- ii) NGOs/PVOs should focus on supporting sustainable models of PO development, since their operating costs cannot be justified for longer-term replication activities. NGOs or their supporting donors should demonstrate such models to other donors for adoption and replication.
- iii) Where long-term personnel of PO-supporting NGOs play an important role in second- and third-tier entities, serious plans must be made for their replacement.
- iv) Training to improve the business skills of local NGOs/PVOs should be a condition for receiving any significant funding to work with POs.

e) Private-Sector Linkages

Lessons Learned

- i) The need for effective private-sector linkages increases as the importance of input buying and especially output marketing increases.
- ii) Substantially improved communication is needed between POs, their second- and third- tier entities, and the private sector.
- iii) Big agribusinesses prefer to deal with private middlemen because of management difficulties with POs and unions, especially related to problems with their speed in decision-making, fulfillment of agreements, and timely delivery of products of agreed-on quality. This is particularly true of unions that do not have professional and/or commercial managers.

Best Practices

- i) Private-sector collaboration with POs must be increased, especially for output marketing; but POs must be linked to fair and competent output buyers and input sellers.
- ii) Significant training and TA, usually supplied by donor-supported entities, is needed to help POs deal effectively with the private sector.

- iii) In most cases, second- and third-level entities are the best interface with the private-sector businesses due to their ability to deliver large volumes of product and to manage large marketing operations.
 - iv) PO sustainability requires initial support to develop second- and third-tier entities and a record of sound business practices leading to long-term relationships with major traders and agribusinesses.
- f) Linkages with Other POs

Best Practices

- i) Better linkages and more contact are needed between developing POs and successful POs—both in-country and regionally—to allow the successful ones to function as models for optimal PO development.
- ii) Exchange visits between developing POs and successful POs and upper-tier entities are very useful for sharing successes and lessons learned.

Credit for Producer Organizations

a) Access

Lessons Learned

- i) It is quite difficult for POs and PO members to gain access to credit.
- ii) Marketing loans for POs are among the most successful and easiest credit operations to arrange, and therefore can improve members' access to credit, benefiting both members and non-members. This is primarily because it enables POs to market larger volumes of product, which lets it improve its negotiating position and achieve economies of scale.
- iii) Side selling is a major impediment to gaining access to credit from agribusinesses.
- iv) Commercial loan application procedures are usually quite complex and time-consuming.
- v) There is considerable interest in crop insurance to protect producers from natural disasters.
- vi) Special efforts are needed to assure equitable access to credit for women producers.

Best Practices

- i) Access to credit must be based on a borrower's willingness and ability to repay not the extent of their need. Not all members will be eligible for loans; their character and track record in prior loan repayment and similar business dealings must be taken into account by the PO in deciding which members should receive loans.
- ii) Loans must be available on a timely basis—e.g., well before the planting season for input loans and, for market-season loans, before the crop is actually harvested. Agreed-on loans must be fully disbursed.
- iii) An agreement empowering a PO to deduct loan payments from revenues from the sale of members' products significantly enhances opportunities for members to access loans.
- iv) Loans for marketing that are made to POs by banks or large traders are highly valuable to the POs' ability to increase their marketing volumes, and should be given high priority.
- v) A market storage loan can be a highly effective lower-risk mechanism. It enables POs and farmers to take advantage of post-harvest price increases for products they hold in storage and at the same time allows them to pay off more expensive production credit right after harvest.
- vi) Donor guarantees or cost-sharing for loans from commercial banks to POs, unions or federations will significantly improve producers' access to credit. Guarantee programs

should not, however, be publicized. Loan guarantee programs often need to be accompanied with loan officer training in agricultural and agribusiness credit management, especially if this is a new type of lending for the bank.

- vii) For POs in an early stage of development, in-kind loans of inputs are preferable to cash.
- viii) POs must do an analysis of the cost of finance, and use the results to determine if they should use savings and retained earnings before borrowing.
- ix) POs should act as a catalyst for micro-finance programs entering into their communities and assisting their members in their financial needs. The fact that POs are in a position to know which members are good and bad credit risks will facilitate the work of micro-finance institutions and improve members' access to credit.

b) Cost of Credit

Lessons Learned

- i) Very few agriculture-related businesses can afford *medium-term* credit at rates that are focused on controlling inflation, i.e., are 20% or more.
- ii) However, the interest rate is often less important than access to credit in the case of *short-term* crops, e.g., horticultural produce, many export crops, and some livestock activities (fattening). Therefore credit programs can often be expanded to include some of these activities, despite the high cost of providing credit.
- iii) Marketing-season loans can, in some cases, support high interest rates, provided that the time the goods are held is kept short and the loan funds are able to support repeated operations during the same marketing season.

Best Practices

- i) The interest rate charged for agricultural lending should not undercut prevailing market rates for "best borrowers."
- ii) POs should minimize the use of expensive credit by self-financing agricultural operations to the greatest extent possible, especially operations that are too risky to carry out with credit, e.g., horticultural crops with high price volatility.
- iii) When possible, POs should make maximum use of supplier credit, buyer advances and member consignment to reduce the costs of borrowing (assuming the real cost of these alternative sources of credit is less than that of available loans). NGOs can act as a catalyst in convincing suppliers that certain POs they support are good credit risks.
- iv) The risks associated with agriculture need to be factored into determining appropriate interest rates and other charges. Measures which reduce risk (irrigation, crop insurance, loan recovery through marketing offsets, etc.) will reduce the cost of loan operations.

c) Sources of Credit

Lessons Learned

- i) Banks can be persuaded to make loans for agriculture and work with POs through a combination of donor lobbying, unpublished loan guarantees, and donor assumption of program start-up costs, e.g., initial salaries, vehicles and equipment.
- ii) Membership in credit unions and access to loans through micro-finance institutions (MFIs) external to POs can help PO members become more successful and therefore increase the viability of the PO itself.
- iii) The many failures of past credit schemes are due to poor design. Future guarantee programs and other credit schemes will require expert TA in their design, during initial stages of implementation, and, later, in evaluation and adjustment.
- iv) Creativity is sometimes helpful in increasing sources of credit—for example, trading this season's output for next season's inputs and repaying credit with output/in-kind.

Best Practices

- i) Donor guarantees for loans to POs from commercial banks can be very effective, especially if unions and upper-tier entities are involved in disbursement and repayment, and guarantees are kept secret.
- ii) "Twinning" credit unions or MFIs with POs may be a viable approach to getting input credit as well as crop storage loans.
- iii) Savings and retained earnings should be used to the maximum extent possible before borrowing.

d) Repayment

Lessons Learned

- i) Credit repayment history for POs is generally poor, primarily due to side selling and historical non-pursuit of defaults.

Best Practices

- i) Loan payments subtracted during the output marketing process, i.e., via marketing offsets, result in a much higher repayment ratio.
- ii) Training and support for how to apply for and then plan for repayment of loans is a necessary step in implementing credit programs run by POs.
- iii) Repayment terms should be re-negotiated when natural disasters, such as serious drought, occur.

Outstanding Issues

- a) What is the best way to achieve optimal access to and utilization of credit?

- i) What is the best way to provide savings and loan (S&L) services to *members* of well-established POs: internally within the PO, via an outside S&L/MFI linked to the PO, or via a totally separate S&L/MFI?
 - ii) What is the best way to supply POs with credit at prevailing interest rates for those activities that are profitable, and what is the best way to determine these activities?
 - iii) How can well-managed *second- and third-level* PO entities best play an effective role in administering credit, e.g., marketing loans or crop storage loans?
 - iv) What is the best way for donors to provide guarantees to commercial banks that will result in significantly increased PO access to credit, yet achieve a high repayment rate?
- b) What is the best way to help producers in marginal areas who do not have sufficient marketable surplus to pay dues or support a sustainable PO, since they are the most in need?
 - c) What is the optimal extent of PO forward integration, i.e., what is the optimal crossover point between POs and commercial agribusinesses?
 - d) What are the disadvantages and advantages of vertically integrated POs? Under what circumstances will a vertically integrated PO be the best approach, and when is a horizontally integrated PO the best?
 - e) How can government best reduce its support of POs in a carefully planned way so POs' sustainability is enhanced and the private sector is stimulated?
 - f) What is the best way for NGOs/PVOs and their donors to support larger-scale business-oriented POs, given NGO and donor inexperience in commercial activities?
 - g) How can PO supporters most effectively do advocacy training and development without upsetting the government in power?
 - h) What is the best way to avoid and/or manage conflicts between traditional village leadership and emerging strong PO leadership, especially for internal PO dispute resolution, as well as between POs which are focused on economic benefits and the traditional village organizations that have political representation?
 - i) What is the most effective way to develop mutually supportive and sustainable POs *and at the same time* the private-sector agribusinesses they do business with?
 - j) What is the best way to balance non-revenue-earning activities—e.g., social projects and advocacy—with revenue needs in democratically controlled POs?
 - k) How can POs best influence the objectives and results of agricultural R&D and extension services, and play a key role in the development and dissemination of technologies adapted to their *market-led* needs?
 - l) Is there a need for regional center specialized in PO training? Should USAID's Bureau for Africa (REDSO/E) investigate ways of developing such a center, as well as ways of eventually helping it to become sustainable—for example, by privatizing it?
 - m) What are the advantages and disadvantages of, and alternative approaches to, a supported NGO using a limited-term charge for services provided? Examples include charging a percentage of a PO's profit or imposing a service charge based on a PO's gross sales. The

objective of this charge is to help the NGOs achieve a payback for PO training and ongoing support. This income can then be used to support new POs.

- n) How can POs and their supporters best address land tenure issues?
- o) What are the additional conditions needed to accelerate the development of new POs and motivate “dormant” POs—i.e., to increase the interest of potential and/or inactive members?
- p) What is the viability of government-established and PO-managed public markets where members’ and non-members’ produce is auctioned to the highest bidder and input suppliers offer their products? What priority should these markets be assigned?
- q) Given the economic growth rate in countries like Malaysia and Thailand, is there potential for South-South adaptation of PO development strategies?

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Development Workshop**

November 2000

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